

EXECUTIVE SUMMARY

Like the universe, the telecommunications industry continues an outward expansion; this expansion, however, is driven by economic forces of market competition. For the first century of its existence, the telecommunications industry was tightly packed and monolithic. At its center was American Telephone & Telegraph (AT&T) - more affectionately known as "Ma Bell." This core was shattered in 1984 by Judge Greene's gavel and the ensuing injection of competition in long distance markets. This, however, was a warm up act for things to come.

In the late 1980s and early '90s, competitive forces struck the very core of the U.S. telecommunications industry - the local exchange. Seemingly overnight, local exchange carriers - primarily the "Baby Bells" - were thrust into a marketplace battle few industry observers anticipated. The first wave of competitive entrants were cleverly dubbed "Competitive Local Exchange Carriers," commonly known now as "CLECs." By 2000, there were approximately 170 facilities-based CLECs operating in the U.S. with a steady stream of new entrants following.

This initial generation of facilities-based CLECs smashed the last remnants of any thought that any telecommunications market could be insulated from competition's grasp. These CLECs were vital to setting the stage for the vast array of competitive carriers we see in today's market. These competitive carriers range from fixed wireless providers to VoIP carriers and continue to build on the CLEC sector's success.

While facilities-based CLECs are no longer the sole competitors in the market, these remain important to the industry and having a clear understanding of the sector, the drivers moving it forward and key trends is essential.

1. For the incumbent local exchange carriers (ILECs), the current set of facilities-based CLECs continue to mature, solidify their position in the market and improve their effectiveness as competitors. This threatens incumbents' market share.
2. For equipment and software vendors, facilities-based CLECs continue to be an appealing target market and an alternative to the few, virtually impenetrable RBOC contracts. As CLECs continue to refine their models, new vendor opportunities will continue to emerge.
3. For the investment community, the CLEC sector contains hidden gems. As the dust settles from the current economic downturn, these gems will become more evident.

4. For business customers, from small and medium size businesses (SMBs) to multi-national enterprises, facilities-based CLECs offer competitive alternatives that introduce breakthrough technology, new product packages and checks on pricing to the telecom marketplace.

5. For other competitive carriers (including other CLECs), facilities-based CLECs offer not only partnering and consolidation opportunities, but also a source of strength in the regulatory and legislative arena. Therefore, identifying and understanding sector brethren continues to be important.

Today's facilities-based CLEC Sector is much more stable than prior generations. These carriers' business models have improved, they are led by rational and seasoned executives, and, having survived rougher patches, they know what it takes to compete effectively in current telecom markets. The facilities-based CLEC Sector is comprised of the following carriers:

- Access One, Inc.
- AMA TechTel Communications, Inc.
- AT&T, Inc. CLEC Operations
- BayRing Communications
- Birch Communications, Inc.
- Broadview Networks, Inc.
- Buckeye Telesystem, Inc.
- Cavalier Telephone, LLC
- Cbeyond, Inc.
- CenturyTel, Inc. CLEC Operations
- CIMCO Communications, Inc.
- Communication Options, Inc.
- ComSpan Communications, Inc.
- Cox Business Services
- DSL.net, Inc.
- Empire One Telecommunications, Inc.
- Falcon Broadband, Inc.
- First Communications, LLC
- General Communication, Inc.
- Global Crossing, Ltd. CLEC
- Global NAPs Networks, Inc.
- Globalcom, Inc.
- Grande Communications Networks, Inc.
- HomeTown Solutions, LLC
- Integra Telecom, Inc.
- ITC^Deltacom, Inc.
- Jaguar Communications, Inc.

Level 3 Communications, Inc.
Local Fiber, LLC
Logix Communications Enterprises, Inc.
Mid-Maine Communications
Norlight, Inc.
NTS Communications, Inc.
NuVox Communications, Inc.
One Communications Corp.
Optimum Lightpath
Orlando Telephone Company
Otter Tail Telecom, Inc.
Pac-West Telecomm, Inc
PAETEC Communications, Inc.
PCS1, Inc.
Penn Telecom, Inc.
Primus Telecommunications Group, Inc.
Qwest Communications International, Inc. CLEC
RCN Corporation
RIO Networks
RNK, Inc.
Socket Telecom LLC
StratusWave Communications, LLC
SureWest Communications
TDS Metrocom
TelNet Worldwide, Inc.
tw telecom Inc.
US TelePacific Corporation
Verizon Communications, Inc. CLEC Operations
XO Communications, Inc.

These carriers are the components of NPRG's CLEC Index, representing the overwhelming majority of CLEC revenue, network assets, and capital expenditure. They are the foundation of the various measurements, such as sector sizing and market forecasts, presented throughout this report.

Overall, the CLEC Sector remains a critical component of the telecommunications landscape. While sector growth is understandably dampened during the current economic downturn, the sector is stable. During the rest of 2009 and into 2010, New Paradigm Resources Group, Inc. (NPRG) expects this sector's growth.